



CALIFORNIA  
STATE BOARD  
OF EQUALIZATION

**BOARD MEMBERS**

JOHAN KLEHS  
First District  
Hayward

DEAN ANDAL  
Second District  
Stockton

CLAUDE PARRISH  
Third District  
Torrance

JOHN CHIANG  
Fourth District  
Los Angeles

KATHLEEN CONNELL  
State Controller  
Sacramento

---

JAMES E. SPEED  
Executive Director  
Sacramento

# ***Tax Tips for Interior Designers and Decorators***

***Sales and Use Taxes***

***January 2001***

***Publication No. 35 • LDA***

## ***FOREWORD***

This pamphlet is a tax guide for owners, managers, and other personnel concerned with interior designing and decorating operations. Its purpose is to provide basic information on the application of the California Sales and Use Tax Law to such operations.

The pamphlet summarizes the law and applicable regulations in effect when the pamphlet was printed as shown by the date on the front cover; however, statutory or regulatory changes may have occurred subsequent to the printing date. In case of any conflict between the text of this pamphlet and the law, the latter is controlling.

If you are in doubt about how the Sales and Use Tax Law applies, please let us know. Requests for advice regarding a particular activity or transaction should be in writing and should fully describe the facts and circumstances of the activity or transaction. Requests should be mailed to the nearest State Board of Equalization office listed on the inside of the back cover of this pamphlet.

# ***CONTENTS***

RECORDS .....	1
TAX RETURNS .....	1
SALES TAX REIMBURSEMENT .....	2
DECORATOR AND DESIGNER FEES .....	2
LABOR-TAXABLE AND EXEMPT .....	3
REUPHOLSTERING .....	4
SUB-CONTRACTED WORK .....	4
IMPROVEMENTS TO REALTY – CARPETING, PAINTING, ETC. ....	4
BAD DEBTS .....	6
DELIVERY CHARGES .....	7
LOCAL SALES AND USE AND DISTRICT TAXES .....	7
FOR MORE INFORMATION .....	7

# **RECORDS**

## **WHAT RECORDS MUST BE KEPT**

As a seller you are required by the Sales and Use Tax Law to keep adequate records showing:

- Your gross receipts from sales of all tangible personal property (including any services that are a part of the sale) whether you regard the receipts as taxable or nontaxable.
- All deductions allowed by law and claimed in filing your returns.
- The total purchase price of all tangible personal property purchased for sale or consumption in California.

These records must include:

- The normal books of account.
- All bills, receipts, invoices, cash register tapes, or other documents of original entry supporting the entries in the books of account.
- All schedules or working papers used in connection with the preparation of tax returns.

*Failure to maintain accurate records may be considered evidenced of negligence or intent to evade the tax, and could result in penalties.*

## **KEEP SALES AND USE TAX RECORDS FOUR YEARS**

... unless the Board of Equalization authorized earlier destruction in writing. This applies to all records pertaining to transactions involving sales or use tax liability.

Representatives of the Board of Equalization may examine your books, papers, records, and other documents to verify the accuracy of any return made, or, if no return is made, to determine the amount of tax you must pay.

# **TAX RETURNS**

## **TOTAL SALES**

The total sales entered on your tax return should include your gross receipts from all sales made during the period covered by the return. All sales of merchandise, fees, labor, and other charges, whether taxable or exempt, must be included. Charge sales, credit card sales, contract sales, or sales on other terms, as well as cash sales, are part of gross receipts.

Credit card sales should be reported exactly as if no credit card organization were involved. The service charge made by the credit card organization is not a discount for sales tax purposes, and no deduction is allowable.

## **SELF-CONSUMED MERCHANDISE**

Merchandise which you purchase for resale, and divert to some other use is subject to use tax measured by your purchase price. Examples include furniture, carpeting, wallpaper, paint, pictures, works of art, etc., taken home for personal use, given to others, donated to organizations, etc. The cost of such merchandise should be reported on Line 2 of your tax return. If it is known that the merchandise to be purchased will be used rather than resold, a resale certificate should not be given.

Purchases of supplies and store equipment for your own use are taxable. Normally these items are purchased from local suppliers who add and report the tax. If supplies or equipment are purchased from out-of-state vendors and no tax is added, the cost of these items should be reported on Line 2 of your tax return.

Any person who secures a seller's permit from the Board of Equalization ostensibly to conduct a legitimate business enterprise, but who in reality has no intention of doing so, and uses the permit to give a resale certificate for purposes of evading payment of the tax, shall be liable for the taxes due plus a penalty of 10 percent or \$500, whichever is greater, for each misuse of a resale certificate.

## **DEDUCTIONS**

Deductions should be taken for receipts which are nontaxable. The usual deductions would be for EXEMPT FEES and EXEMPT LABOR. A deduction may also be taken for SALES TAX if it is included in the amount reported in total sales.

*In claiming a deduction be sure it really is exempt. Be sure it was included in reported total sales. Be sure to retain documentation supporting the deduction.*

## **SALES TAX REIMBURSEMENT**

Although you are liable for the sales tax on taxable retail sales made by you, the Civil Code provides that the question of tax reimbursement is a matter of agreement between the retailer and the purchaser. It shall be presumed that the parties agree to the addition of sale tax if:

- The agreement of sale expressly provides for such addition of sales tax reimbursement;
- Sales tax reimbursement is shown on the sales check or other proof of sale; or
- The retailer posts on the business premises in a location visible to purchasers, or includes on a price tag or in an advertisement or other printed material directed to purchasers, a notice to the effect that reimbursement for sales tax will be added to the sales price of all items or certain items, whichever is applicable.

Collection of tax reimbursement which is greater than the amount of tax imposed upon a transaction is excess tax reimbursement to the extent that it exceeds the taxpayer's own tax liability on the transaction. Such excess tax reimbursement must be returned to the customer or paid to the State.

Sales tax reimbursement schedules covering sales up to \$100 are prepared by the Board of Equalization pursuant to Civil Code Section 1656.1. These are available separately and are also set out as appendixes to Regulation 1700. (See pages 8 and 9 for ordering information, including internet availability.)

## **DECORATOR AND DESIGNER FEES**

How you bill your clients to recover costs and earn a profit is strictly a matter between you and your customer. Many designers and decorators charge a fee which may be a negotiated amount or a percentage of the selling price of furnishings, labor, and professional services.

Fees for bona fide professional services such as consultation, layout, coordination of furniture and fabrics, selection of color schemes, and supervision of installations, etc., are exempt. Billings for such exempt fees should be separately stated from fees related to sales of tangible personal property.

Fees charged in connection with acquiring and providing furnishings or other tangible personal property are taxable. A fee charged solely for accompanying a client to showrooms, or for otherwise assisting in or recommending the selection of furnishings, is considered part of the taxable selling price of the furnishings sold by you, not an exempt decorator fee. However, tax does not apply to charges for such services when no sales of merchandise are made. Normally, the selling price of the furnishings on which you compute tax should be the "retail" price, that is, your cost plus a reasonable markup.

If furnishings or other kinds of tangible personal property are billed at cost and a separately stated fee charge includes overhead, profit, etc., directly related to the property sold, as well as other charges, the total fee charged will be considered subject to tax, unless it is established that a portion of the fee is for exempt professional services as described above.

## **LABOR-TAXABLE AND EXEMPT**

Not **all** charges for labor are exempt. The following definitions will assist you in properly classifying the three basic types of labor.

### **FABRICATION LABOR**

This consists of labor performed as a step in making a new article, or in changing the form of an existing article. Charges for this type of labor performed for a consumer are taxable, even if the customer furnishes the materials.

Examples of fabrication labor are:

- Quilting new fabric
- Converting a vase to a lamp (antique or new)
- Making a bedspread from materials furnished by the designer or client
- Fabricating draperies, slip covers, pillows, etc.
- Making rugs from an old carpet
- Converting a love seat into separate chairs
- Cutting and sewing material to be used in reupholstering

### **REPAIR LABOR**

This is labor to repair, refinish, or restore to its original state and use, any previously existing property. Charges for this type of labor are **not** taxable.

Examples of exempt repair labor are:

- Refinishing client's old table
- Cleaning client's rug
- Replating client's old silver plaque

### **INSTALLATION LABOR**

This is labor to install property in place after it has been delivered to the client's premises. It does not include any labor expended prior to the final installation. Charges for installation labor are **not** taxable.

Examples of exempt installation labor are:

- Hanging draperies after delivery to the job site
- Hanging paintings
- Painting walls
- Connecting appliances to power source
- Hanging wallpaper

### **DRAPERIES**

Transactions involving draperies provide good illustrations of different categories of labor. In the sale of custom made draperies, all labor up to the point on installation is taxable fabrication labor. This includes taking measurements at the client's premises, cutting and sewing the fabric, shirring, lining, pleating and pressing. Charges for scotchguarding and fireproofing the fabric are also taxable. The charge for hanging the draperies is exempt installation labor. Charges for installation labor should be separately stated in the contract or billing.

Suppose that a year later this client wished to have the same draperies cleaned, resized, relined, fireproofed, and installed at a new location. All of these services would constitute exempt repair labor. Only the selling price of the lining would be taxable. You will notice that fireproofing of new draperies is taxable because it fits the

definition of “fabrication”, i.e., “a step in making a new article”. It is not taxable when applied to the client’s used draperies since we define “repair labor” as “. . . restore to its original state and use.”

## ***REUPHOLSTERING***

### **MATERIALS**

Furniture reupholstering generally involves sales of materials as well as fabrication, repair, and installation labor. Sales tax applies to the sales price of materials and parts such as fabric, foam rubber, springs, cushions, legs and casters.

### **FINDINGS**

Tax applies to sales of items commonly referred to as “findings”. These items include property with small unit values such as brads, buttons, tacks, twine and thread. Sellers of reupholstering work may elect to either segregate the charge for findings or use the alternate reporting method described below.

### **FABRICATION OR REPAIR**

Taxable fabrication labor includes cutting and sewing materials for coverings for furniture being reupholstered, including seat and back cushions. Exempt repair or installation labor includes stripping old material, applying new material, retying springs, and refinishing wood.

### **REPORTING METHODS**

In reporting, the retailer may segregate in his/her records the sales price of materials and findings, charges for fabrication labor, and charges for exempt labor. The total sales less the exempt labor would be reported as taxable.

For convenience, an alternate procedure may be used by those who prefer not to segregate findings and the two types of labor. In this method, 80% of the total labor charge may be claimed as exempt labor. The remaining 20% will be considered to represent taxable fabrication labor and **findings**. For further details see Regulation 1550, Reupholsters (see page 8 for ordering information).

## ***SUB-CONTRACTED WORK***

Decorators and designers sometimes encounter difficulty in properly billing and reporting taxable and exempt charges because persons to whom they sublet the work fail to furnish them with a breakdown of materials, repair labor, and installation labor. These subcontractors may assume that because the sales to you are sales for resale no segregation is necessary.

For your own protection, you are urged to insist on accurate and itemized billings from subcontractors such as reupholsters and drapery manufacturers and installers.

**A resale certificate should not be issued to or accepted by anyone who installs materials used to make improvements to realty.** As noted below, the tax on such materials is the responsibility of the installer.

## ***IMPROVEMENTS TO REALTY — CARPETING, PAINTING, ETC.***

### **IMPROVEMENTS DEFINED**

Making improvement to realty include those operations which involve the permanent attachment of “materials” to land or buildings. Installing wall-to-wall carpeting, hanging wallpaper, and painting houses are typical operations in making improvements to realty. The tax consequences of making such improvements under construction contracts are different from regular sales and provide an opportunity for tax savings if properly handled. A pamphlet covering the application of tax to improvements to realty titled “Tax Tips for Construction

and Building Contractors” may also be obtained from any Board of Equalization office. Information concerning improvements to realty is also contained in Regulation 1521, Construction Contractors, (see page 8 for ordering information).

## **TAX ON COST OF MATERIALS — LUMP-SUM CONTRACTS**

Designers, decorators and installers are the consumers of “materials” they use in making improvements to realty under lump-sum contracts. Tax is due on the purchase price of materials, such as carpeting, padding, tackless strip, wallpaper, paste, sizing, and paint used in making the improvements. Tax should be reported by the mill, wholesaler, or other dealer who sells the property to you or your installer. You should not issue a resale certificate to your supplier or any installer you subcontract such work to even though you will rebill your client.

For example, assume that you enter into a lump-sum contract with your client to furnish and install 100 yards of wall-to-wall carpeting for \$1,600 and assume that your direct costs are:

Acme Carpet Mills – 100 yards @ \$8.00	\$ 800.00
Expert Installers Inc. – install 100 yds. carpeting @ \$3.00, including labor, padding and tackless strip	\$ 300.00
	<u>\$1,100.00</u>

- If you bill your customer on a lump-sum basis as follows:  
Furnish and install 100 yds. carpeting \$1,600.00  
You are the consumer of the materials (carpet and should pay tax to Acme Carpet Mills on the \$800 carpet cost.
- If a lump-sum billing is made, separate tax reimbursement should not be charged to your customer, although you must still pay tax to your supplier on your purchase price of the materials.
- The installer is the consumer of padding, strip, and any other materials he/she used. The installer should pay tax on these materials to his/her supplier.

## **TAX ON MARKED-UP BILLING FOR MATERIALS — TIME AND MATERIAL CONTRACTS**

If you add sales tax on the retail or marked-up price of the materials, you become the retailer of the materials instead of the consumer and must pay tax on the billed price. For example, assume that you contract with your client on a time and material basis to furnish and install 100 yards of wall-to-wall carpeting and that your direct costs are the same as in the prior section:

- If you bill your customer as follows:

Furnish 100 yds. carpeting @ \$12.00 per yd.	\$ 1,200.00
Sales Tax at 6%	\$ 72.00
Installation	\$ 400.00
	<u>\$ 1,672.00</u>

You owe \$72 tax, or tax on \$1,200 rather than on \$800, since the tax is added on a marked-up billing for materials.

## **MANUFACTURED HOUSING – “MOBILEHOMES”**

A contract to furnish and install materials or fixtures on an existing mobilehome installed on a permanent foundation is considered a construction contract to improve real property. Tax applies as explained in the above examples and in Regulation 1521, Construction Contractors (see page 8 for ordering information).

Similar transactions involving mobilehomes not installed on a permanent foundation are considered sales of tangible personal property. Tax applies to the retail selling price of the personal property in the same manner as in the sale of furniture or other freestanding items.



# BAD DEBTS

## ALLOWABLE DEDUCTION

Accounts which are found to be worthless and charged off for income tax purposes generally result in a deduction to the extent that tax was paid on the original sale. If only a portion of the account becomes bad, only a like portion of the original sale may be claimed as a deduction. If the original sale was partly taxable and partly exempt, the allowable bad debt deduction may not exceed that percentage of the total bad debt which is equal to the taxable percentage of the original sale. Bad debt deductions should be claimed on the tax return for the period during which the account became worthless and was written off.

The following examples illustrate typical calculations for bad debt losses:

<b>Furnish and Install Draperies</b>		(Taxable)
Custom draperies, track, and hardware	\$ 700.00	(\$700.00)
Installation labor	100.00	
<b>Reupholster Sofa</b>		
Fabric and other materials	\$ 275.00	(275.00)
Installation labor	125.00	(25.00) *
<b>Designer Fee</b>	<u>\$ 180.00</u>	
Total (before sales tax)	\$ 1,380.00	(\$1,000.00)
Sales Tax (6% of \$1,000)	<u>60.00</u>	
Total (including tax)	\$1,440.00	
Deposit – 50%	<u>720.00</u>	
Balance Due	<u><u>\$ 720.00</u></u>	

If the entire balance due is written off as a bad debt, the calculation would be:

$$\begin{array}{l} \text{Taxable Portion of Invoice} \quad \times \quad \text{Bad Debt Loss} \quad = \quad \text{Allowable Deduction} \\ \text{Total Invoice} \quad \quad \quad \text{or} \\ \begin{array}{r} \$1,000 \\ \$1,440 \end{array} \times \$720 = \$500 \end{array}$$

Since exactly one half of the billing was written off, the allowable deduction is limited to 50% of the taxable portion of the sale, i.e., 50% of \$1,000.

*\*Assumes 20% originally reported taxable—see “Reupholstering” for reporting methods of reupholsters.*

## DEDUCTION LIMITATION

The above method may not be used where lump-sum contracts for wall-to-wall installations of carpets or other improvements to realty are involved. As previously stated, bad debt deductions may be claimed where the tax has been paid on the original sale. However, lump-sum contracts to install wall-to-wall carpeting are not retail sales. Designers and installers are responsible as **consumers** for the tax on the cost of materials they use in making such improvements to realty. Therefore, allowable bad debt deductions are limited to those instances where sales tax is added on a marked-up price.

- In the first example under “Improvements to Realty”, the designer billed the client on a lump-sum basis for \$1,600. **No deduction** may be taken for bad debt losses from such a billing.
- In the second example, carpeting which cost \$800 was marked up to \$1,200 and tax of \$72 was added. In this case, if 40% of the entire amount of \$1,672, is written off as a loss, a bad debt deduction may be claimed for 40% of the \$1,200.

Amount billed for carpeting	\$ 1,200.00
Bad debt deduction (40% x \$1,200)	<u>480.00</u>

**Caution:** If any amount previously written off is later collected, the taxable portion must then be reported.

## ***DELIVERY CHARGES***

Delivery charges are exempt if all of the following conditions exist:

- They are separately stated.
- Delivery is made by facilities other than those of the decorator, i.e., by common carrier or contract carrier.
- Charges to the client for delivery do not exceed the amount paid to the carrier.
- Charges are for transportation directly to the client. (Charges for “freight in” which represent delivery from the factory or dealer to the decorator’s place of business, warehouse, or other intermediate point are **not** exempt.)

If you deliver property by your own facilities, or sell it for a delivered price, tax applies to the delivery charge except under certain conditions.

## ***LOCAL SALES AND USE AND DISTRICT TAXES***

With certain exceptions, all of the provisions of the State Sales and Use Tax Law and regulations adopted thereunder are applicable to state-administered local sales and use taxes and to state-administered transactions (sales) and use taxes imposed by special taxing districts. Local taxes are effective statewide while district taxes are effective only in areas that have enacted district tax ordinances. The overall tax rate is a combination of state and local sales and use taxes and where enacted, district taxes. See Regulation 1821 which contains general information on district taxes. A list of the counties that impose a district tax and their applicable tax rates may be obtained from any Board of Equalization office.

## ***FOR MORE INFORMATION***

### **GENERAL TAX QUESTIONS**

If you have a general tax question, please call our toll-free number and speak with a Customer Service Representative. Representatives are available weekdays from 8:00 A.M. to 5:00 P.M., except State holidays. Please call:

**1-800-400-7115**

For TDD assistance (telephone device for the deaf) please call:

From TDD phones	From voice phones
1-800-735-2929	1-800-735-2922

Assistance is available in languages other than English.

### **QUESTIONS REGARDING YOUR ACCOUNT**

Please call the office that maintains your records. The name and telephone number of the appropriate office is printed on your tax returns. Field office telephone numbers are provided on page 9.

## TO VERIFY A SELLER'S PERMIT NUMBER — RESALE CERTIFICATES

If you wish to verify the seller's permit number for a business that gives you a resale certificate for their purchase, you may use our interactive service on the Internet (see next page), or call us toll free at 1-888-225-5263, seven days a week. Please have on hand the seller's permit number you wish to verify, the business name, business address, and business owner's name.

## FAX-BACK SERVICE

Our fax-back service, which allows you to order selected forms and publications, is available 24 hours a day. Call 1-800-400-7115 and chose the fax option. We'll fax your selection to you within 24 hours.

## PUBLICATIONS AND REGULATIONS

To obtain copies of forms, publications, and regulations, you may:

**Call our Information Center.** A Customer Service Representative will help you during working hours. If you know the name or number of the document you need, you can call outside working hours and leave a recorded message. Certain documents are also available on our fax-back service, described above.

**Send a fax request.** You can fax a request to 916-322-2015.

**Use the Internet.** Certain regulations and publications are available on our Internet site. See next page.

### ***Regulations***

1521	<i>Construction Contractors</i>
1550	<i>Reupholsters</i>
1698	<i>Records</i>
1821	<i>Forward — District Taxes</i>

### ***Publications***

You may find the following publications helpful. The letters (S, K, V, and C) indicate that the publication is available in Spanish (S), Korean (K), Vietnamese (V) or Chinese (C).

9	<i>Tax Tips for Construction Contractors</i>
17	<i>Appeals Procedures</i>
44	<i>Tax Tips for District Taxes</i>
51	<i>Guide to Board of Equalization Services (C,K,S,V)</i>
61	<i>Sales and Use Taxes: Exemptions and Exclusions</i>
70	<i>The California Taxpayer's Bill of Rights (C,K,S,V)</i>
73	<i>Your California Seller's Permit (C,K,S,V)</i>
74	<i>Closing Out Your Seller's Permit (S)</i>
75	<i>Interest and Penalty Payments</i>
76	<i>Audits (S,K)</i>

## TAX INFORMATION BULLETIN

As a registered seller, you also receive the quarterly *Tax Information Bulletin*, which includes articles on the application of law to specific types of transactions, announcements regarding new and revised publications, and other articles of interest to sellers. The bulletin is mailed with your sales and use tax return(s). If you file only once a year and would like to receive all four bulletins, please write to the following address and ask to be added to Mailing List #15: Mail Services Unit, MIC:12; Attn: Addressing Systems; State Board of Equalization; P.O. Box 942879; Sacramento, CA 94279-0012.

## INTERNET — WWW.BOE.CA.GOV

We maintain the following information on our Internet site: sales and use tax rates by county, *Business Taxes Law Guide* (laws and regulations), Board field office addresses and telephone numbers, Taxpayers' Bill of Rights Hearings, pending regulations, publication order forms, an agency profile, and Board Member biographies. You can also verify seller's permit numbers on-line and download copies of selected regulations and publications. Enter <http://www.boe.ca.gov>

## WRITTEN ADVICE

For your protection, it is best to get tax advice in writing. You may be relieved of tax, penalty, or interest charges that are due on a transaction if the Board determines that it gave you incorrect written advice regarding the transaction and that you reasonably relied on that advice in failing to pay the proper amount of tax. For this relief to apply, a request for advice must be in writing, identify the taxpayer to whom the advice applies, and fully describe the facts and circumstances of the transaction. Please send your request to the Board office that handles your account.

Tax relief is not available if you incorrectly apply tax based on Board advice given in person or over the telephone.

## SALES TAX CLASSES

Some local Board offices offer basic sales and use tax classes. If you're interested, call ahead to find out whether your local office conducts a class for beginning sellers.

## TAXPAYERS' RIGHTS ADVOCATE

If you have been unable to resolve a disagreement with the Board, or if you would like to know more about your rights under the Sales and Use Tax Law, please contact the Taxpayers' Rights Advocate office:

Taxpayers' Rights Advocate Office, MIC:70  
State Board of Equalization  
P.O. Box 942879  
Sacramento CA 94279-0070  
Phone: 888-324-2798 toll-free  
916-324-2798  
Fax: 916-323-3319

## FIELD OFFICES

City	Area Code	Number	City	Area Code	Number
Bakersfield	805	395-2880	San Jose	408	277-1231
Culver City	310	342-1000	San Marcos	760	510-5850
El Centro	760	352-3431	Santa Ana	714	558-4059
Eureka	707	445-6500	Santa Rosa	707	576-2100
Fresno	559	248-4219	Stockton	209	948-7720
Kearny Mesa	858	636-3191	Suisun City	707	428-2041
Laguna Hills	949	461-5711	Torrance	310	516-4300
Norwalk	562	466-1694	Van Nuys	818	904-2300
Oakland	510	622-4100	Ventura	805	677-2700
Rancho Mirage	760	346-8096	West Covina	626	480-7200
Redding	530	224-4729			
Riverside	909	680-6400	<b>For Out-of-State Accounts</b>		
Sacramento	916	227-6700	Chicago, IL	312	201-5300
Salinas	831	443-3003	Houston, TX	281	531-3450
San Diego	619	525-4526	New York, NY	212	697-4680
San Francisco	415	703-5400	Sacramento, CA	916	227-6600